

**Potterville Public Schools  
Potterville, Michigan**

**FINANCIAL STATEMENTS**

**June 30, 2008**

Potterville Public Schools

Potterville, Michigan

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June 30, 2008

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Pottersville Public Schools

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INDEPENDENT AUDITOR'S REPORT

To the Board of Education  
Pottersville Public Schools  
Pottersville, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Pottersville Public Schools as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Pottersville Public Schools' management. Our responsibility is to express opinions on these financial statements based on our audit.

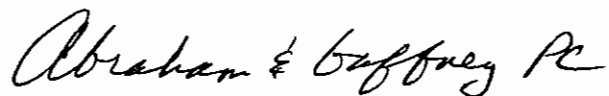
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Pottersville Public Schools as of June 30, 2008, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 10, 2008 on our consideration of Pottersville Public Schools' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope and testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The administration's discussion and analysis and budgetary comparison information, as identified in the table of contents, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Potterville Public Schools' basic financial statements. The accompanying other supplementary information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink that reads "Abraham & Gaffney PC". The script is cursive and fluid, with the letters "A" and "G" being particularly large and stylized.

ABRAHAM & GAFFNEY, P.C.  
Certified Public Accountants

December 10, 2008

This section of Pottersville Public Schools' annual report presents our discussion and analysis of the School District's financial performance during the year ended June 30, 2008. Please read it in conjunction with the School District's financial statements, which immediately follow this section.

Pottersville Public Schools, a K-12 school district located in Eaton County, Michigan, is in its fourth year under the provisions of Governmental Accounting Standards Board Statement 34 (GASB 34) with the enclosed financial statements. The Administration's Discussion and Analysis, a requirement of GASB 34, is intended to be the Pottersville Public Schools' Administration's discussion and analysis of the financial results for the fiscal year ended June 30, 2008.

### **Using this Annual Report**

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Pottersville Public Schools financially as a whole. The *District-wide Financial Statements* provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and longer-term view of the finances. The *Fund Financial Statements* provide the next level of detail. For governmental activities, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements look at the School District's operations in more detail than the district-wide financial statements by providing information about the School District's most significant funds - the General Fund and the General Capital Projects Sinking Fund individually, and the Special Revenue Funds, Debt Service Funds, and other Capital Project Funds collectively as other nonmajor governmental funds. The remaining statements, the Statement of Fiduciary Net Assets, and the Statement of Changes in Fiduciary Net Assets, present financial information about activities for which the School District acts solely as an agent for the benefit of students and parents.

### **District-Wide Financial Statements**

One of the most important questions asked about the School District is, "As a whole, what is the School District's financial condition as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities, which appear first in the basic financial statements, report information on the School District as a whole and its activities in a way that helps you answer this question. These statements are prepared to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the School District's net assets - the difference between assets and liabilities, as reported in the Statement of Net Assets - as one way to measure the School District's financial health or financial position. Over time, increases or decreases in the School District's net assets - as reported in the Statement of Activities - are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the School District's operating results. However, the School District's goal is to provide services to our students, not generate profits as commercial entities do. One must consider many other non-financial factors, such as the quality of the education provided and the safety of the schools, to assess the overall health of the School District.

The Statement of Net Assets and Statement of Activities report the governmental activities for the School District, which encompass all of the School District's services, including instruction, supporting services, community services, athletics, and food service. Property taxes, unrestricted State Aid (foundation allowance revenue), State and Federal grants, and other local dollars finance most of these activities.

The District-wide financial statements are full accrual basis statements. They report all the District's assets and liabilities, both short and long-term, regardless if they are "currently available" or not. For example, assets that are restricted for use in the Debt Service Funds solely for the payment of long-term principal or interest are grouped with unrestricted assets of the General Fund. Capital assets and long-term obligations of the District are reported in the Statement of Net Assets of the District-wide financial statements.

**Fund Financial Statements**

The fund level financial statements are reported on the modified accrual basis. Only those assets that are "measurable" and "available" are reported. Liabilities are recognized to the extent that they are normally expected to be paid with current financial resources.

The fund statements are formatted to comply with the legal requirements of the Michigan Department of Education's "Accounting Manual." In the State of Michigan, the District's major instructional and instructional support activities are reported in the General Fund. Additional activities are reported in their relevant funds including: Debt Service Funds, the Special Revenue (School Service) Funds which are comprised of: Food Service and Athletics, and Capital Project Funds.

In the fund financial statements, purchased capital assets are reported as expenditures in the year of acquisition. No capital assets are reported. The issuance of debt is recorded as a financial resource. The current year's payments of principal and interest on long-term obligations are recorded as expenditures. Future year's debt obligations are not recorded.

**District Financial Activities:**

The recent good health of the District's finances can be credited to the following innovative management approaches during a time of restricted state funding due to a weak economy and significant tax reductions at the state level:

- A board policy which requires a balanced budget with a fund balance goal of 15 percent of annual expenditures.
- Utilization of a total cost compensation approach for the negotiation of employee contracts with the District's five employee groups.

**Summary of Net Assets:**

The following summarizes the net assets as of June 30, 2008 and 2007:

Condensed Statement of Net Assets  
as of June 30, 2008 and 2007

	Governmental Activities 2008	Governmental Activities 2007
<b>Assets</b>		
Current Assets	\$ 2,995,868	\$ 2,564,886
Capital Assets	13,615,199	13,869,267
<b>Total Assets</b>	<b>16,611,067</b>	<b>16,434,153</b>
<b>Liabilities</b>		
Current Liabilities	2,400,862	1,849,298
Noncurrent Liabilities	13,638,628	13,962,032
<b>Total Liabilities</b>	<b>16,039,490</b>	<b>15,811,330</b>
<b>Net Assets</b>		
Invested in capital assets, net of related debt	(238,267)	(194,492)
Restricted	376,887	402,435
Unrestricted	432,957	414,880
<b>Total Net Assets</b>	<b>\$ 571,577</b>	<b>\$ 622,823</b>

**Analysis of Financial Position:**

As detailed above, the District shows a positive total net asset value of \$571,577 for the fiscal year ended June 30, 2008. This statement has been affected by the following factors:

- Major construction projects became necessary to replace worn out facilities to meet the needs of students. Construction of new facilities and major modifications to other facilities began in 1999 and continued through the 2006-2007 year.
- Significant debt (\$12.4 million) was incurred by the District in 1999 to pay for the facility modification projects and principal and interest payments are significant annually. Also it is necessary for the District to borrow annually from the State of Michigan School Bond Loan Fund in order to even out the debt payment requirements.

**Results of Operations:**

For the fiscal year ended June 30, 2008 and 2007, the District-wide results of operations were:

Condensed Statement of Activities  
Year Ended June 30, 2008 and 2007

	Governmental Activities 2008	Governmental Activities 2007
<b>Revenues:</b>		
Program Revenues		
Charges for Service	\$ 448,082	\$ 461,429
Operating Grants	749,524	741,715
General Revenues		
Property Taxes	1,543,380	1,420,101
State School Aid-unrestricted	6,346,929	6,118,989
Other	<u>1,113,005</u>	<u>1,228,855</u>
<b>Total Revenues</b>	<b>10,200,920</b>	<b>9,971,089</b>
<b>Functions/Program Expenses:</b>		
Instruction	5,105,382	5,042,043
Supporting services	3,101,950	3,032,346
Community services	422,831	418,327
Food service	277,122	256,911
Athletics	237,377	247,224
Payment to other districts	0	14,100
Interest on long-term debt	692,353	828,788
Unallocated depreciation	<u>415,151</u>	<u>464,650</u>
<b>Total Expenses</b>	<b><u>10,252,166</u></b>	<b><u>10,304,389</u></b>
<b>(Decrease) in Net Assets</b>	<b><u>\$( 51,246 )</u></b>	<b><u>\$( 333,300 )</u></b>

**Analysis of Results of Operations:**

During fiscal year ended June 30, 2008, the District's net assets decreased by \$51,246. Several factors which helped cause the reduction are discussed in the following sections.

**A. Governmental Fund Operating Results**

The District's expenditures from governmental fund operations exceeded revenues by \$95,164 for the fiscal year ended June 30, 2008. Further discussion of the District's operating results is available in the section entitled "Results of 2007-2008 Operations" located on the following pages.

**B. Depreciation Expense**

The cost of capital assets is allocated over the useful lives of the assets as depreciation expense. During 2007-2008, district assets depreciated in the amount of \$415,151 and \$161,083 of new assets were capitalized causing a reduction in net district assets of \$254,068.

**C. Long-Term Debt Activities**

The District reduced its long-term debt obligation during 2007-2008 by making principal payments amounting to \$350,000. Additional debt of \$139,707 in the form of principal borrowed and interest accrued on outstanding debt was incurred by the District during the fiscal year through the State of Michigan School Bond Loan Fund and accrued severance pay decreased by \$84,272. As a result of these activities, net district long-term debt liabilities decreased by \$294,565.

**Results of 2007-2008 Operations**

During fiscal year ended June 30, 2008, the District net assets decreased by \$51,246. A few additional significant factors affecting net assets during the year are discussed below:

**A. General Fund Operations**

The General Fund is the main fund for the District and includes all the costs related to educating the students of the Pottersville Public Schools such as: Salaries and benefits for Teachers, Classroom Paraprofessionals, Administrators, Secretaries, Custodians, Maintenance staff, Librarians, Counselors, Bus Drivers and other miscellaneous positions; teaching supplies, employee training, utilities, building maintenance supplies and other.

The District's expenditures exceeded revenues from General Fund operations by \$50,331 for the fiscal year ended June 30, 2008. The General Fund as of June 30, 2008, has a fund balance of \$565,270 or 6.4% of expenditures for the 2007-2008 fiscal year.

**B. Debt Service Fund Operations**

The Debt Service Funds consist of two separate debt funds as follows: 1999 Debt and 2001 Debt. The Debt Service Funds are set up to collect taxes and State aid and pay annual debt payments. At June 30, 2008, the Debt Service Funds had \$146,564 in fund equity available for future bond payments.

The School District levies taxes to make debt payment obligations. If taxes levied are not sufficient the School District will borrow funds from the Michigan School Bond Loan Fund. Any funds borrowed from the Michigan School Bond Loan Fund will be paid back toward the end of the bond obligations. In the fiscal year ended June 30, 2008, the School District borrowed \$139,707 and the School District has a total obligation of \$3,237,353 to pay back to the Michigan School Bond Loan Fund including interest. The District also had Durant resolution bonds and accrued severance pay outstanding at June 30, 2008, which totaled \$246,897.

**Administration's Discussion and Analysis  
For Fiscal Year Ended June 30, 2008**

The District made principal payments on bonded, long-term debt obligations that reduced the amount of the District's long-term liabilities as follows:

	Principal Balance <u>July 1, 2007</u>	Principal Payments	Principal Balance <u>June 30, 2008</u>
1998 Durant Bonds	\$ 66,113	\$ -	\$ 66,113
1999 Bonds	1,420,000	310,000	1,110,000
2001 Bonds	<u>9,480,000</u>	<u>40,000</u>	<u>9,440,000</u>
Total long-term bond obligations	<u><b>\$ 10,966,113</b></u>	<u><b>\$ 350,000</b></u>	<u><b>\$ 10,616,113</b></u>

See Note D for additional details related to long-term debt.

**C. School Service Funds**

The Pottersville Public Schools also has school service funds that include the following: Food Service Fund and Athletics Fund.

The Food Service Fund is a fund that reports the food service program activities. In 2007-2008 the Food Service Fund had revenues of \$277,702 and expenditures of \$277,122. The Food Service Fund is self-supporting and reimburses the General Fund for all identified overhead costs associated with its operation. The Food Service Fund had a fund balance of \$48,471.

The Athletics Fund includes all costs for high school and middle school athletic programs including the cost for coaches, officials, supplies, tournaments, and miscellaneous. Transportation cost is accounted for in the General Fund. In 2007-2008 the Athletics Fund had revenues of \$85,438 from gate receipts, passes, fees, donations, and other miscellaneous items and expenditures of \$237,377. The Athletics Fund must be a balanced budget and the District contributed \$135,495 from the General Fund to balance the fund. The Athletics Fund had a zero fund balance at June 30, 2008.

**D. Net Investment in Capital Assets**

The District's net investment in capital assets decreased by \$254,068 during the fiscal year. This can be summarized as follows:

	Balance <u>July 1, 2007</u>	Net <u>Change</u>	Balance <u>June 30, 2008</u>
Capital assets	\$ 20,784,108	\$ 161,038	\$ 20,945,191
Less: accumulated depreciation	<u>( 6,914,841 )</u>	<u>( 415,151 )</u>	<u>( 7,329,992 )</u>
Net investment in capital outlay	<u><b>\$ 13,869,267</b></u>	<u><b>\$ ( 254,068 )</b></u>	<u><b>\$ 13,615,199</b></u>

In 1999, Pottersville Public Schools voters approved a \$12,425,000 general obligation bond issue. The proceeds from those bond issues were used for constructing new facilities and additions and partial remodeling of existing school facilities, and equipping and re-equipping facilities.

**IMPORTANT ECONOMIC FACTORS****A. State of Michigan Unrestricted Aid (Net State Foundation Grant)**

The State of Michigan aid, unrestricted, is determined with the following variables:

- a. State of Michigan State Aid Act per student foundation allowance.
- b. Student Enrollment - Blended at 75 percent of current year's fall count and 25 percent of prior year's winter count.
- c. The District's nonhomestead property valuation.

**B. Per Student Foundation Allowance**

Annually, the State of Michigan establishes the per student foundation allowance. The Potterville Public Schools foundation allowance was \$7,219 per student for the 2007-2008 school year. This is an increase of \$119 from Potterville Public Schools 2006-07 foundation allowance of \$7,100 per student.

**C. Student Enrollment**

The District's student enrollment for the fall count of 2007-2008 was 943 students. The District's enrollment increased slightly from the prior school year's student count. The following summarizes fall student enrollments in the past five years:

	<u>Student FTE</u>	<u>FTE Change from Prior Year</u>
2007-2008	943	30
2006-2007	913	2
2005-2006	911	3
2004-2005	908	(14)
2003-2004	922	19

**D. Property Taxes levied for General Operations (General Fund Nonhomestead Taxes)**

For the year ended June 30, 2008, the District levied 17.4480 mills of property taxes for operations (General Fund) on nonhomestead properties. The prior year's levy was also 17.4480 mills of property taxes for operations (General Fund) on nonhomestead properties. Under Michigan law, the taxable levy is based on the taxable valuation of properties. Annually, the taxable valuation increase in property values is capped at the rate of the prior year's CPI increase or five (5) percent, whichever is less. At the time of sale, a property's taxable valuation is readjusted to the State Equalized Value, which is, theoretically, 50 percent of the market value. The District's nonhomestead property tax revenue for 2007-2008 fiscal year was \$489,446. The nonhomestead tax revenue increased by 1.2% over the prior year, in part due to growth of nonhomestead properties.

**E. Debt Fund Property Taxes**

The District's debt fund levy, which is used to pay the principal and interest on bond obligations, is based on the taxable valuation of all properties: homestead and nonhomestead.

For 2007-2008 the District's debt millage levy was 7.35 mills, which generated revenue of \$881,835.

For 2007-2008 the District's sinking fund millage levy was 1.00 mills, which generated revenue of \$119,978.

**Administration's Discussion and Analysis  
For Fiscal Year Ended June 30, 2008**

**GENERAL FUND BUDGET & ACTUAL REVENUES & EXPENDITURES**

Listed below is an analysis of the original budget and final budget to the final actual for the last two (2) years.

**General Fund Expenditures and Other Uses Budget vs. Actual**

<u>Fiscal Year</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variances</u>	
				<u>Actual &amp; Original Budget</u>	<u>Actual &amp; Final Budget</u>
2006-2007	\$8,378,034	\$8,896,019	\$8,700,302	(3.8%)	2.2%
2007-2008	8,876,390	9,226,326	8,862,617	.2%	3.9%

**General Fund Revenues and Other Sources, Budget vs. Actual**

<u>Fiscal Year</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variances</u>	
				<u>Actual &amp; Original Budget</u>	<u>Actual &amp; Final Budget</u>
2006-2007	\$8,243,594	\$8,515,093	\$8,492,176	3.0%	(.3%)
2007-2008	8,448,873	8,948,902	8,812,286	4.3%	(1.5%)

**Original vs. Final Budget:**

The Uniform Budget Act of the State of Michigan requires that the Board of Education approve the original budget for the upcoming year prior to July 1, the start of the fiscal year.

As a matter of practice, Pottersville Public Schools amends its budget periodically during the school year. The June 2008 budget amendment was the final budget for the fiscal year.

**General Fund Expenditures:**

The District's budget for expenditures changed as follows during the year:

		<u>Percent</u>
Total Expenditures Original Budget	\$ 8,876,390	100.0
Total Expenditures Final Budget	<u>9,226,326</u>	<u>103.9</u>
Increase in Budget Expenditures	<u>\$ 349,936</u>	<u>3.9%</u>

The District's actual expenditures were less than the final budget by \$359,788 or 3.9 percent.

There was less than a 3.9% net change in the final expenditure budget compared to the originally adopted budget. This net change is an indication of the time and effort the administration devotes to data analysis to developing good, sound budgets at the inception of each fiscal year.

**Administration's Discussion and Analysis  
For Fiscal Year Ended June 30, 2008****Revenue Change from Original to Final Budget:**

		<u>Percent</u>
Total Revenues Original Budget	\$ 8,448,873	100.0
Total Revenues Final Budget	<u>8,948,902</u>	<u>105.9</u>
Increase in Budget Revenues	<u>\$ 500,029</u>	<u>5.9%</u>

The District's final actual general fund revenues differed from the final budget by \$136,616 a variance of (1.5%) from the final budget.

The final revenue budget reflects increases in state and federal grants compared to the original budget.

**Additional Economic Factors and Next Year's Budgets and Rates**

Our elected officials and administration considered many factors when setting the School District's 2008 fiscal year budget. One of the most important factors affecting the budget is our student count. The State foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil. The blended count for the 2008 fiscal year is 25 percent and 75 percent of the February 2007 and September 2007 student counts, respectively. The 2008 fiscal year budget was adopted in June 2007, based on an estimate of students that will be enrolled in September 2007. Approximately 80 percent to 85 percent of total General Fund revenue is from the foundation allowance. Under State law, the School District cannot access additional property tax revenue for general operations. As a result, district funding is heavily dependent on the State's ability to fund local school operations. Once the final student count and related per pupil funding is validated, State law requires the School District to amend the budget if actual district resources are not sufficient to fund original appropriations.

Since the School District's revenue is heavily dependent on State Funding and the status of the State's School Aid Fund, the actual revenue received depends on the State's ability to collect revenues to fund its appropriation to school districts. For the past several years, the increase in per student foundation has not matched the increased costs in health insurance, salary and retirement increases. Funding from the State continues to be uncertain for 2008-09 and 2009-10.

**Contacting the District's Financial Management**

This financial report is designed to provide our citizens and taxpayers with a general overview of the District's finances. If you have questions about this report or need additional information, contact the Business Office, Pottersville Public Schools, 420 N. High Street, Pottersville, Michigan 48876.

## **BASIC FINANCIAL STATEMENTS**

Pottersville Public Schools

STATEMENT OF NET ASSETS

June 30, 2008

	<u>Governmental Activities</u>
<b>ASSETS</b>	
Current assets	
Cash and cash equivalents	\$ 1,418,861
Accounts receivable	7,943
Taxes receivable	122,079
Due from other governmental units	1,433,188
Prepays	4,099
Inventory	<u>9,698</u>
Total current assets	2,995,868
Noncurrent assets	
Capital assets not being depreciated	7,793
Capital assets, net of accumulated depreciation	<u>13,607,406</u>
Total noncurrent assets	<u>13,615,199</u>
<b>TOTAL ASSETS</b>	<b>16,611,067</b>
<b>LIABILITIES</b>	
Current liabilities	
Accounts payable	230,200
Notes payable	785,000
Accrued payroll	479,005
Other accrued liabilities	295,999
Due to other governmental units	79,584
Accrued interest payable	100,135
Unearned revenue	35,317
Current portion of compensated absences	7,544
Current portion of long-term debt	<u>388,078</u>
Total current liabilities	2,400,862
Noncurrent liabilities	
Noncurrent portion of compensated absences	173,240
Noncurrent portion of long-term debt	<u>13,465,388</u>
Total noncurrent liabilities	<u>13,638,628</u>
<b>TOTAL LIABILITIES</b>	<b><u>16,039,490</u></b>
<b>NET ASSETS</b>	
Invested in capital assets, net of related debt	(238,267)
Restricted for sinking fund activity	330,458
Restricted for debt service	46,429
Unrestricted	<u>432,957</u>
<b>TOTAL NET ASSETS</b>	<b><u>\$ 571,577</u></b>

See accompanying notes to financial statements.

Pottersville Public Schools

STATEMENT OF ACTIVITIES

Year Ended June 30, 2008

		Program Revenues		Net (Expense) Revenues and Changes in Net Assets
	Expenses	Charges for Services	Operating Grants	Governmental Activities
Expenses				
Instruction	\$ 5,105,382	\$ 99	\$ 109,992	\$ (4,995,291)
Supporting services	3,101,950	-	216,658	(2,885,292)
Community services	422,831	212,210	295,661	85,040
Food service	277,122	150,399	127,213	490
Athletics	237,377	85,374	-	(152,003)
Interest and charges on long-term debt	692,353	-	-	(692,353)
Unallocated depreciation	415,151	-	-	(415,151)
<b>TOTAL EXPENSES</b>	<b>\$ 10,252,166</b>	<b>\$ 448,082</b>	<b>\$ 749,524</b>	<b>(9,054,560)</b>
General Revenues				
Property taxes				1,543,380
State school aid - unrestricted				6,346,929
Investment earnings				51,688
Special Education county allocation				76,730
Payments from other districts				950,595
Miscellaneous				33,992
<b>TOTAL GENERAL REVENUES</b>				<b>9,003,314</b>
<b>CHANGE IN NET ASSETS</b>				<b>(51,246)</b>
Net assets, beginning of year				622,823
Net assets, end of year				<b>\$ 571,577</b>

See accompanying notes to financial statements.

Pottersville Public Schools

GOVERNMENTAL FUNDS BALANCE SHEET

June 30, 2008

	General	General Projects (Sinking Fund)	Nonmajor Governmental Funds	Total Governmental Funds
<b>ASSETS</b>				
Cash and cash equivalents	\$ 929,626	\$ 323,102	\$ 166,133	\$ 1,418,861
Accounts receivable	7,943	-	-	7,943
Taxes receivable	60,658	7,356	54,065	122,079
Due from other funds	51,191	-	728	51,919
Due from other governmental units	1,404,949	-	28,239	1,433,188
Prepays	4,099	-	-	4,099
Inventory	5,575	-	4,123	9,698
<b>TOTAL ASSETS</b>	<b>\$ 2,464,041</b>	<b>\$ 330,458</b>	<b>\$ 253,288</b>	<b>\$ 3,047,787</b>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>LIABILITIES</b>				
Accounts payable	\$ 223,138	\$ -	\$ 7,062	\$ 230,200
Notes payable	785,000	-	-	785,000
Accrued payroll	479,005	-	-	479,005
Other accrued liabilities	295,999	-	-	295,999
Due to other governmental units	79,584	-	-	79,584
Deferred revenue	35,317	-	-	35,317
Due to other funds	728	-	51,191	51,919
<b>TOTAL LIABILITIES</b>	<b>1,898,771</b>	<b>-0-</b>	<b>58,253</b>	<b>1,957,024</b>
<b>FUND BALANCES</b>				
Reserved for				
Inventory and prepaids	9,674	-	4,123	13,797
Debt service	-	-	146,564	146,564
Unreserved				
Undesignated, reported in:				
General fund	555,596	-	-	555,596
Special revenue funds	-	-	44,348	44,348
Capital projects fund	-	330,458	-	330,458
<b>TOTAL FUND BALANCES</b>	<b>565,270</b>	<b>330,458</b>	<b>195,035</b>	<b>1,090,763</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 2,464,041</b>	<b>\$ 330,458</b>	<b>\$ 253,288</b>	<b>\$ 3,047,787</b>

See accompanying notes to financial statements.

Pottersville Public Schools

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO  
THE STATEMENT OF NET ASSETS

June 30, 2008

**Total fund balance - governmental funds** \$ 1,090,763

Amounts reported for the governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources  
and therefore are not reported as assets in the governmental funds.

The cost of capital assets is	\$ 20,945,191	
Accumulated depreciation is	<u>(7,329,992)</u>	
		13,615,199

Long-term liabilities are not due and payable in the current period  
and therefore are not reported as liabilities in the funds.

Long-term liabilities at year-end consist of:

Bonds and loans payable	(13,853,466)	
Accrued interest payable on long-term debt	(100,135)	
Compensated absences	<u>(180,784)</u>	
		<u>(14,134,385)</u>

**Net assets of governmental activities** \$ 571,577

See accompanying notes to financial statements.

Pottersville Public Schools

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -  
GOVERNMENTAL FUNDS

Year Ended June 30, 2008

	General	General Projects (Sinking Fund)	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES				
Local sources	\$ 815,720	\$ 131,749	\$ 1,118,858	\$ 2,066,327
State sources	6,463,045	-	10,814	6,473,859
Federal sources	506,196	-	127,213	633,409
TOTAL REVENUES	7,784,961	131,749	1,256,885	9,173,595
EXPENDITURES				
Current				
Instruction	5,202,341	-	-	5,202,341
Supporting services	3,101,950	-	-	3,101,950
Community services	422,831	-	-	422,831
Food service	-	-	277,122	277,122
Athletics	-	-	237,377	237,377
Debt service				
Principal retirement	-	-	350,000	350,000
Interest, fiscal and other charges	-	-	556,067	556,067
Capital outlay	-	148,396	-	148,396
TOTAL EXPENDITURES	8,727,122	148,396	1,420,566	10,296,084
EXCESS OF REVENUES (UNDER) EXPENDITURES	(942,161)	(16,647)	(163,681)	(1,122,489)
OTHER FINANCING SOURCES (USES)				
Transfers from other funds	-	-	135,495	135,495
Other transactions	1,027,325	-	-	1,027,325
Transfers to other funds	(135,495)	-	-	(135,495)
TOTAL OTHER FINANCING SOURCES (USES)	891,830	-0-	135,495	1,027,325
NET CHANGE IN FUND BALANCES	(50,331)	(16,647)	(28,186)	(95,164)
Fund balances, beginning of year	615,601	347,105	223,221	1,185,927
Fund balances, end of year	\$ 565,270	\$ 330,458	\$ 195,035	\$ 1,090,763

See accompanying notes to financial statements.

Pottersville Public Schools

RECONCILIATION OF THE CHANGE IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES

Year Ended June 30, 2008

**Net change in fund balances - total governmental funds** \$ (95,164)

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital outlay	\$ 161,083	
Depreciation expense	<u>(415,151)</u>	
Depreciation expense in excess of capital outlay		(254,068)

Repayment of long-term debt and borrowing of long-term debt is reported as expenditures and and other financing sources in governmental funds, but the repayment reduces long-term liabilities and the borrowings increase long-term liabilities in the statement of net assets. In the current year, these amounts consist of:

Bond principal retirement	350,000	
Bond proceeds (including SBLF accrued interest)	<u>(139,707)</u>	
Excess of principal retirement over bond proceeds		210,293

Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:

Decrease in accrued interest payable on long-term debt	3,421	
Decrease in compensated absences	<u>84,272</u>	
		<u>87,693</u>

**Change in net assets of governmental activities** \$ (51,246)

See accompanying notes to financial statements.

Pottersville Public Schools

Fiduciary Fund

STATEMENT OF FIDUCIARY NET ASSETS

June 30, 2008

	Agency Fund
ASSETS	
Cash	<u>\$          58,730</u>
LIABILITIES	
Due to student groups	
Elementary	\$          4,428
Middle School	9,638
High School	<u>         44,664</u>
TOTAL LIABILITIES	<u>\$          58,730</u>

See accompanying notes to financial statements.

Pottersville Public Schools  
NOTES TO FINANCIAL STATEMENTS

June 30, 2008

**NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of Pottersville Public Schools have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District's more significant accounting policies are described below.

1. Reporting Entity

As required by accounting principles generally accepted in the United States of America; GASB Statement No. 14, *The Financial Reporting Entity* (as amended by GASB Statement No. 39); and *Statement on Michigan Governmental Accounting and Auditing* No. 5, these financial statements present the financial activities of Pottersville Public Schools (primary government). The District has no activities that would be classified as component units.

Based on the application of these criteria, the financial statements of the District contain all the funds controlled by the District.

2. Basis of Presentation

**DISTRICT-WIDE FINANCIAL STATEMENTS**

The statement of net assets and the statement of activities (the district-wide statements) present information for the district as a whole. All nonfiduciary activities of the primary government are included (i.e., fiduciary fund activities are not included in the district-wide statements). Interfund activity has been eliminated in the preparation of the district-wide financial statements.

The statement of activities presents the direct functional expenses of the District and the program revenues that support them. Direct expenses are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Program revenues are associated with specific functions and include charges to recipients of goods or services and grants and contributions that are restricted to meeting the operational or capital requirements of that function. Revenues that are not required to be presented as program revenues are general revenues. This includes all taxes, interest, and unrestricted State aid payments and other general revenues and shows how governmental functions are either self-financing or supported by the general revenues of the District.

**FUND FINANCIAL STATEMENTS**

The governmental fund financial statements present the District's individual major funds and aggregated nonmajor funds. A separate column is shown for each major funds on the balance sheet and statement of revenues, expenditures, and changes in fund balances. Nonmajor funds are combined and shown in a single column.

The major funds of the District are:

- a. General Fund - The General Fund is used to account for money or other resources provided to the District to support the educational programs and general operations of the District.
- b. General Projects (Sinking Fund) - The General Projects (Sinking Fund) is used to record transactions relative to the expansion or improvement of the facilities of the District, not recorded in the 1999 Bond Projects Fund.

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

**NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

**3. Measurement Focus**

The district-wide and fiduciary fund financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations are provided that explain the differences in detail.

All governmental funds are presented using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

There is no measurement focus for agency (fiduciary) funds since assets equal liabilities.

**4. Basis of Accounting**

Basis of accounting refers to the timing under which transactions are recognized for financial reporting purposes. Governmental fund financial statements use the modified accrual basis of accounting. The district-wide and fiduciary fund financial statements are prepared using the accrual basis of accounting.

Under the accrual basis of accounting, revenue is recorded in the period in which it is earned and expenses are recorded when incurred, regardless of the timing of related cash flows. Property tax revenue is recognized in the fiscal year for which it is levied. Revenues for grants, entitlements, and donations are recognized when all eligibility requirements imposed by the provider have been met. Deferred revenue is recorded when resources are received by the District before it has legal claim to them, such as when grant monies are received prior to the incurrence of qualified expenditures.

Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Revenues susceptible to accrual include property taxes, state and federal aid, and interest revenue. Other revenues are not susceptible to accrual because generally they are not measurable until received in cash. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt which are recorded when due.

The District reports deferred revenue on its governmental funds balance sheet. Deferred revenues arise when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Resources are considered available if they are collected during the current fiscal year or soon enough afterward to be used in payment of current year liabilities - defined as expected to be received within sixty days of year-end. Deferred revenues also arise when the District receives resources before it has a legal claim to them. In subsequent periods, when both revenue recognition criteria are met, the liability for deferred revenue is removed from the balance sheet and revenue is recognized.

**5. Budgets and Budgetary Accounting**

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the General and Special Revenue Funds. All unexpended appropriations lapse at fiscal year end.

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

**NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

5. Budgets and Budgetary Accounting - continued

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

- a. The Business Manager submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means for financing them.
- b. Public hearings are conducted to obtain taxpayer comments.
- c. Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amounts appropriated.
- d. The budgets are legally adopted at the functional level for the General Fund and the total fund level for all other applicable funds; however, they are maintained at the object level for control purposes. Any revisions that alter the total expenditures at the functional level must be approved by the School Board.
- e. Formal budgetary integration is employed as a management control device during the year for the General and Special Revenue Funds.
- f. The budget, as presented, has been amended in a legally permissible manner. Two (2) supplemental appropriations were made during the year with the final amendments being approved June 13, 2008.

6. Cash and Cash Equivalents

Cash and cash equivalents consist of checking, savings, money market accounts, and pooled investment funds. Cash equivalents are recorded at market value.

7. Short-term Interfund Receivables/Payables

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" and "due to other funds" on the balance sheet.

8. Due From Other Governmental Units

Due from other governmental units consists of various amounts owed to the District for grant programs and State Aid payments. The State of Michigan's funding stream of State Aid resulted in two (2) payments related to the fiscal year ended June 30, 2008, being paid in July and August 2008. The total amount of \$1,433,488 due from other governmental units consists of \$1,213,389 and \$220,099 related to State Aid and grant and local programs, respectively.

9. Inventory

Inventory is stated at cost on a first in/first out basis. The Food Services Fund inventory consists of food and paper goods. The General Fund inventory consists of supplies. Inventory amounts are equally offset by a fund balance reserve, which indicates that they do not constitute "available spendable resources" even though they are a component of net current assets.

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

**NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

**10. Capital Assets**

Capital assets include land, buildings, equipment, and vehicles and are recorded (net of accumulated depreciation, if applicable) in the district-wide financial statements. Capital assets are those with an initial individual cost greater than \$5,000 and an estimated useful life of more than one year. Capital assets are not recorded in the governmental funds. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the district-wide financial statements. All purchased fixed assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Depreciation is computed using the straight-line method over the following useful lives:

Buildings and additions	50 years
Equipment and furniture	3 - 20 years
Vehicles	8 years

The District has no assets that would be classified as infrastructure assets.

**11. Compensated Absences**

Based on the requirements of GASB Statement No. 16, *Accounting for Compensated Absences*, the District has recorded all liabilities associated with compensated absences. Accumulated vested severance amounts and nonvested severance amounts that are probable to vest and be paid at termination are considered payable from future resources and are recorded along with the related payroll taxes as a long-term liability in the district-wide financial statements.

**12. Short-Term Note Obligations**

Short-term debt is recognized as a liability of a governmental fund and is included on the balance sheet of the applicable fund. During the current year the District borrowed funds to meet short-term cash flow borrowing needs. The final payment is due and payable in August 2008, and anticipated State Aid and other funds on hand are expected to be sufficient to cover this commitment.

**13. Accrued Interest Payable**

Accrued interest on long-term obligations is presented in the district-wide statements as a current liability.

**14. Long-term Obligations**

Long-term debt is recognized as a liability in the district-wide statements when incurred. The portion of those liabilities expected to be paid within the next year is a current liability with the remaining amounts shown as long-term.

Long-term debt is recognized as a liability of a governmental fund when due or when resources have been accumulated in the Debt Service Fund for payment early in the following year. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund.

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

**NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

**15. Property Taxes**

Property taxes levied by the District are collected by various municipalities and periodically remitted to the District. The taxes are levied as of July 1 and December 1 and are due upon receipt of the billing by the taxpayer. The actual due dates are September 14 and February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity. School District property tax revenues are recognized when levied. Uncollected amounts as of year-end are reported as taxes receivable.

The District levies taxes of \$17.4480 per \$1,000 of taxable valuation on nonhomestead property for general operating and \$7.35 per \$1,000 of taxable valuation on the total applicable taxable valuation of all property within the District for debt service and \$1.00 per \$1,000 of taxable valuation on the total applicable taxable valuation of all property within the District for sinking fund activities. The District is also permitted to levy additional amounts for enhancement and/or debt service if voter approval is obtained.

**16. State Foundation Revenue**

Beginning with the fiscal year ended June 30, 1995, the State of Michigan adopted a foundation grant approach, which provides for a specific annual amount of revenue per student based on a statewide formula. Prior to the fiscal year ended June 30, 1995 the State utilized a district power equalizing approach. The foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the year ended June 30, 2008, the foundation allowance was based on the average of pupil membership counts taken in September and February of 2007. The average calculation was weighted 75% for the September 2007 count and 25% for the February 2007 count.

The State portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by nonhomestead property taxes, which may be levied at a rate of up to 18 mills. The State revenue is recognized during the foundation period (currently the fiscal year) and is funded through nine (9) payments made during the year and two (2) payments made subsequent to year-end. The local revenue is recognized as outlined above under Property Taxes.

**17. State Categorical Revenue**

The District also receives revenue from the State to administer certain categorical education programs. State rules require that revenue earmarked for these programs be expended for its specific purpose. Categorical funds received that are not expended by the close of the fiscal year are recorded as deferred revenue.

**18. County Special Education Revenue Allocation**

The District continued to receive revenue based on excess funds remaining from a Countywide Special Education millage approved in prior years.

The millage was collected by Eaton Intermediate School District (EISD) and the payments to the District were based on EISD's previous year-end fund balance. Based on Countywide approval from all local districts within the County and the EISD, a predetermined fund equity amount has been established for equity that will remain at the EISD. The remaining excess will be allocated to all local districts within the County. The allocation is paid pro rata based upon the K-12 pupil enrollment, including Special Education students enrolled at EISD, of the District compared to the total County wide enrollment, along with a component for each local districts added special education costs incurred by each district. The K-12 enrollment for the District is defined as the blended official count for the State foundation grant.

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

**NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

**19. Interfund Transactions**

Transactions that constitute reimbursements to a fund for expenditures initially made from it that are properly applicable to another fund are recorded as expenditures in the reimbursing fund and as reductions of expenditures in the fund that is reimbursed. Transfers of resources to other funds are recorded as operating transfers. Transfers are netted as a part of the reconciliation to the district-wide financial statements.

**20. Comparative Data**

Comparative data for the prior year has not been presented in each of the accompanying financial statements since their inclusion would make the statements unduly complex and difficult to read.

**21. Federal Programs**

Federal programs are accounted for in the General Fund and specific Special Revenue Funds. The District has not integrated its Single Audit reports and financial data as part of the financial statements. The Single Audit reports and financial data will be issued under separate cover as supplementary information to the basic financial statements.

**22. Reserved Fund Balance and Restricted Net Assets**

Reserved fund balance is used to earmark a portion of fund balance to indicate that it is not appropriate for expenditures or has been legally segregated for a specific future use.

Restrictions of net assets shown in the District-wide financial statements indicate that restrictions imposed by the funding source or some other outside source which precludes their use for unrestricted purposes.

**NOTE B: CASH AND CASH EQUIVALENTS**

In accordance with Michigan Public Act 451 of 1976, Section 1223(1), as amended, the District is authorized to invest its surplus funds in the following types of investments:

1. Bonds, bills, or notes of the United States; obligations, the principal and interest of which are fully guaranteed by the United States; or obligations of the State.
2. Certificates of deposit issued by a State or national bank, savings accounts of a State or Federal savings and loan association, or certificates of deposit or share certificates of a State or Federal credit union organized and authorized to operate in this State.
3. Commercial paper rated prime at the time of purchase and maturing not more than 270 days after the date of purchase.
4. Securities issued or guaranteed by agencies or instrumentalities of the United States government.
5. United States government or federal agency obligation repurchase agreements.
6. Bankers' acceptances issued by a bank that is a member of the Federal Depositary Insurance Corporation.
7. Mutual funds composed entirely of investment vehicles that are legal for direct investment by a School District.

Pottersville Public Schools  
NOTES TO FINANCIAL STATEMENTS

June 30, 2008

**NOTE B: CASH AND CASH EQUIVALENTS - CONTINUED**

8. Investment pools, as authorized by the Surplus Funds Investment Pool Act, Act No. 367 of the Public Acts of 1982, being sections 129.111 to 129.118 of the Michigan Compiled Laws, composed entirely of instruments that are legal for direct investment by a School District.

Michigan Public Acts authorize school districts in Michigan to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations. Deposits of the District are at federally insured banks and credit unions in the State of Michigan in the name of the School District.

Federal Deposit Insurance Corporation (FDIC), and the National Credit Union Administration regulations provide that deposits of governmental units are to be separately insured for savings deposits and demand deposits up to \$100,000 each. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000. Michigan School Code Section 1223 allows that security in the form of collateral, surety bond, or another form may be taken for the deposits or investments of a school district in a bank, savings and loan association, or credit union.

Deposits

There is custodial credit risk as it relates to deposits. In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it.

As of June 30, 2008, the carrying amount of the District's deposits was \$354,601 and the bank balance was \$552,129, of which \$221,802 was covered by federal depository insurance. The balance of \$330,327 was uninsured and uncollateralized. The District had \$300 imprest cash on hand.

Investments

As of June 30, 2008, the District had the following investments:

<u>Investment type</u>	<u>Fair value</u>	<u>Bank Balance</u>	<u>Weighted Average Maturity</u>
Uncategorized pooled investments	<u>\$ 1,122,690</u>	<u>\$ 1,122,690</u>	N/A

Credit risk

State law limits investments in certain types of investments to a prime or better rating issue by nationally recognized statistical rating organizations (NRSRO's). As of June 30, 2008, the District's investment in uncategorized pooled investments (Michigan Liquid Asset Fund Plus) was rated AAA by Standard and Poor's.

Interest rate risk

The District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market and investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the District's cash requirements.

Concentration of credit risk

The District will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the District's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Pottersville Public Schools  
NOTES TO FINANCIAL STATEMENTS

June 30, 2008

**NOTE B: CASH AND CASH EQUIVALENTS - CONTINUED**

Custodial credit risk

The District will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by limiting investments to the types of securities authorized by the Board and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the District will do business in accordance with Board approved policy.

The cash and cash equivalents and investments referred to above have been reported on the financial statements based upon criteria disclosed in Note A. The following summarizes the categorization of these amounts as of June 30, 2008:

	<u>Governmental Activities</u>	<u>Fiduciary Fund</u>	<u>Total</u>
Cash and cash equivalents	<u>\$ 1,418,861</u>	<u>\$ 58,730</u>	<u>\$ 1,477,591</u>

Due to significantly higher cash flow at certain periods during the year, the amount the District held as cash and cash equivalents increased significantly. As a result, the amount of uninsured and uncollateralized cash and cash equivalents were substantially higher at these peak periods than at year-end.

**NOTE C: CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2008, was as follows:

	<u>Balance July 1, 2007</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2008</u>
Capital assets not being depreciated				
Land	\$ 7,793	\$ -	\$ -	\$ 7,793
Capital assets being depreciated				
Buildings and additions	19,118,368	148,033	-	19,266,401
Equipment, furniture, and other assets	1,013,711	13,050	-	1,026,761
Vehicles	<u>644,236</u>	<u>-</u>	<u>-</u>	<u>644,236</u>
Totals at historical cost	20,776,315	161,083	-0-	20,937,398
Less accumulated depreciation for:				
Buildings and additions	( 5,613,893 )	( 347,994 )	-	( 5,961,887 )
Equipment, furniture, and other assets	( 726,052 )	( 35,322 )	-	( 761,374 )
Vehicles	<u>( 574,896 )</u>	<u>( 31,835 )</u>	<u>-</u>	<u>( 606,731 )</u>
Total accumulated depreciation	<u>( 6,914,841 )</u>	<u>( 415,151 )</u>	<u>-0-</u>	<u>( 7,329,992 )</u>
Net capital assets being depreciated	<u>13,861,474</u>	<u>( 254,068 )</u>	<u>-0-</u>	<u>13,607,406</u>
Capital assets, net	<u>\$13,869,267</u>	<u>\$( 254,068 )</u>	<u>\$ -0-</u>	<u>\$13,615,199</u>

Total depreciation expense of \$415,151 was not allocated to governmental functions. It appears on the statement of activities as "unallocated".

Pottersville Public Schools  
NOTES TO FINANCIAL STATEMENTS

June 30, 2008

**NOTE D: LONG-TERM DEBT**

The following is a summary of changes in long-term debt obligations of the District for the year ended June 30, 2008.

	Balance July 1, 2007	Additions	Deletions	Balance June 30, 2008	Amounts Due Within One Year
1998 Durant Resolution Bonds	\$ 66,113	\$ -	\$ -	\$ 66,113	\$ 38,078
1999 School Building and Site General Obligation Bonds	1,420,000	-	310,000	1,110,000	310,000
2001 Refunding Bonds	9,480,000	-	40,000	9,440,000	40,000
Michigan School Bond Loans - Principal and interest	3,097,646	139,707	-	3,237,353	-
Compensated absences	<u>265,056</u>	<u>13,844</u>	<u>98,116</u>	<u>180,784</u>	<u>7,544</u>
	<u>\$14,328,815</u>	<u>\$ 153,551</u>	<u>\$ 448,116</u>	<u>\$14,034,250</u>	<u>\$ 395,622</u>

Significant details regarding outstanding long-term debt (including current portions) are presented below:

**General Obligation Bonds**

\$12,425,000 School Buildings and Site General Obligation Bonds dated December 1, 1999, due in annual installments ranging from \$310,000 to \$490,000 through May 1, 2011, with interest ranging from 5.150 to 6.625 percent, payable semi-annually. \$ 1,110,000

\$9,660,000 Refunding Bonds dated February 14, 2001, due in annual installments ranging from \$40,000 to \$535,000 through May 1, 2029, with interest ranging from 4.125 to 5.15 percent, payable semi-annually. 9,440,000

**Resolution Bonds**

\$111,968 1998 Durant Resolution Bonds dated November 15, 1998, due in annual installments from \$6,528 to \$38,078, with interest of 4.761353 percent, payable annually. The annual debt service payments related to these bonds is paid through an annual appropriation from the State of Michigan. The State of Michigan has suspended payment until May 15, 2009. 66,113

\$10,616,113

**Michigan School Bond Loans**

The School District has borrowed on various occasions from the Michigan School Bond Loan Fund. Repayment is due when the School District has funds available as determined by the State of Michigan. Interest accrues on the unpaid balance. During the year the interest rate ranged from 4.385 to 4.823 percent.

The School District has an increase of \$139,707 in accrued interest payable during this fiscal year. The balances at June 30, 2008, are as follows:

Loan balance	\$ 2,660,166
Interest balance	<u>577,187</u>
	<u>\$ 3,237,353</u>

Pottersville Public Schools

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

**NOTE D: LONG-TERM DEBT - CONTINUED**

Compensated absences - In recognition of services to the District, a severance payment is made to eligible employees with at least ten (10) years of service according to their respective employment contracts as follows:

Teachers

Eligible teachers will be paid for a maximum of one hundred sixty-two days of accumulated sick leave at a rate of \$45 a day.

Administrators and certain central office employees

Eligible administrators and central office employees will be paid up to a maximum of one hundred twenty (120) days of accumulated sick leave at a rate based on their daily rate of pay.

Under GASB Statement No. 16 requirements, the District has elected to implement the "vesting" method of calculating the compensated absences liability. The amounts accumulated for all employees currently vested are calculated along with an amount for other employees who currently are not vested but are probable to vest in future years. The amounts for employees who currently are not vested are calculated taking total unused sick pay amounts at June 30, 2008 for all nonvested employees and multiplying it by a historical termination percentage. This percentage is based on an estimate of the percentage of employees who have terminated employment fully vested in the past five (5) years.

A summary of the calculated amounts of compensated absences as of June 30, 2008, which has been recorded in the district-wide financial statements, is as follows:

	<u>Vested Employees</u>	<u>Nonvested Employees</u>	<u>Total</u>
Compensated absences	\$ 166,432	\$ 1,505	\$ 167,937
Payroll taxes	<u>12,732</u>	<u>115</u>	<u>12,847</u>
	<u>\$ 179,164</u>	<u>\$ 1,620</u>	<u>\$ 180,784</u>

The annual requirements to pay the debt principal and interest outstanding for the Long-Term Debt are as follows:

<u>Year Ending June 30,</u>	<u>Durant Resolution Bonds</u>		<u>General Obligation Bonds</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2009	\$ 38,078	\$ 14,751	\$ 350,000	\$ 530,523
2010	6,528	1,335	355,000	508,735
2011	6,839	1,024	535,000	490,857
2012	7,164	698	535,000	463,153
2013	7,504	357	535,000	439,078
2014-2018	-	-	2,645,000	2,257,385
2019-2023	-	-	2,580,000	1,169,028
2024-2028	-	-	2,520,000	515,773
2029	-	-	495,000	25,493
	<u>\$ 66,113</u>	<u>\$ 18,165</u>	<u>\$10,550,000</u>	<u>\$ 6,400,025</u>

Pottersville Public Schools

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

**NOTE D: LONG-TERM DEBT - CONTINUED**

The Durant Resolution Bonds referred to above are bonds whose future debt service payments by the District are contingent on an annual State of Michigan appropriation. This is the only revenue source for making the annual debt service payments on these bonds. If the legislature of the State of Michigan fails to appropriate the funds, in any particular year, the District is under no obligation for payment of that year's debt obligation. The State of Michigan has suspended payments on these bonds until May 15, 2009. It appears this suspension will have no financial impact on Pottersville Public Schools in the future.

It is not possible to project a payment schedule for the Michigan School Bond Loans due to the varying interest rates and timing of repayments. As a result, it is not included in the schedule above.

**Advance Refunding - Prior**

On February 14, 2001 the District defeased the portion of the 1999 School Building and Site Bonds which are due and payable May 1, 2012 through May 1, 2029. This was accomplished by establishing an irrevocable trust with an escrow agent composed of cash and U.S. government securities sufficient to meet the applicable principal and interest obligations. The District issued General Obligation 2001 Refunding Bonds in the amount of \$9,660,000 to provide resources to fund the escrow amounts and pay the costs of issuance of the refunding bonds. Accordingly, the trust account assets and liabilities for the defeased bonds are not included in the District's financial statements. At June 30, 2008, bonds due and payable May 1, 2012 through May 1, 2029 for the 1999 School Building and Site Bonds in the amount of \$8,835,000 are considered defeased.

**NOTE E: INTERFUND RECEIVABLES AND PAYABLES**

The amount of interfund receivables and payables at June 30, 2008 are as follows:

Due to nonmajor governmental funds from:	
General Fund	\$ <u>728</u>
Due to General Fund from:	
Nonmajor governmental funds	\$ <u>51,191</u>

Amounts appearing as interfund payables and receivables arise from two types of transactions. One type of transaction is where a fund will pay for a good or service that at least a portion of the benefit belongs to another fund. The second type of transaction is where one fund provides a good or service to another fund. Balances at the end of the year are for transfers that have not cleared as of the balance sheet date.

**NOTE F: INTERFUND TRANSFERS**

Permanent reallocation of resources between funds of the reporting entity is classified as interfund transfers. For the purpose of the Statement of Activities, all interfund transfers between individual governmental funds have been eliminated.

Transfers to nonmajor governmental funds from:	
General Fund	\$ <u>135,495</u>

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

**NOTE G: EMPLOYEE RETIREMENT SYSTEM**

All of the District's employees, except students, are eligible to participate in the State wide Michigan Public School Employees' Retirement System (MPERS), a multiple-employer, cost-sharing, State wide public employee retirement system. The MPERS issues a publicly available financial report that includes financial statements and required supplementary information for the Plan. The report for the fiscal year-end September 30, 2006, the last year available, may be obtained by contacting the State of Michigan, Department of Management and Budget.

The payroll for employees covered by the MPERS for the year ended June 30, 2008 was \$4,808,588 of which \$3,602,199 was for members who have elected the MIP option; the District's total payroll was \$4,975,715.

Effective January 1, 1987, Act 91 of the Public Acts of 1985 established a voluntary contribution to the Member Investment Plan (MIP). Employees first hired before January 1, 1990, made a one-time irrevocable election to contribute to the tax deferred MIP. For a limited period ended January 1, 1993, an active Basic Plan member may have enrolled in MIP by repaying the contributions and interest that would have been made had MIP enrollment occurred initially prior to January 1, 1990. Employees first hired on or after January 1, 1990, will automatically be included in MIP.

Members in MIP may retire at any age after attaining thirty years of credited service, or at age sixty while still working with a minimum total of five (5) years of credited service, with credited service in each of the five (5) school fiscal years immediately preceding the retirement allowance effective date. The retirement allowance is calculated using a formula of 1.5% of the member's final average compensation multiplied by the total number of years of credited service.

Employees who did not elect the MIP option fall under the MPERS Basic Plan and may retire after attaining age sixty with ten (10) years of credited service; or attaining age fifty-five with thirty or more years of credited service; or attaining age fifty-five while still working with at least fifteen (15) but fewer than thirty years of credited service in each of the five (5) school fiscal years immediately preceding the retirement allowance effective date. The retirement allowance is computed using a formula of 1.5% of the average of the highest total earnings during a period of sixty consecutive months (five (5) years) multiplied by the total years to the nearest tenth of a year of credited service.

The MPERS also provides death and disability benefits and health and medical, dental, vision, and hearing insurance coverage. Benefits are established by State statute.

For the period of July 1, 2007 to September 30, 2007, the District was required by State statute to contribute 17.74% of covered compensation for all wages to the Plan. For the period of October 1, 2007 to June 30, 2008, the District was required by State statute to contribute 16.72% of covered compensation for all wages to the Plan. The total amount contributed to the Plan for the year ended June 30, 2008 and the previous two (2) years is as follows:

<u>June 30,</u>	<u>MIP</u> <u>Contributions</u>	<u>District</u> <u>Contributions</u>	<u>Total</u> <u>Contributions</u>
2008	\$ 142,663	\$ 814,311	\$ 956,974
2007	138,860	851,506	990,366
2006	134,566	795,500	930,066

The following represents contributions as a percentage of the applicable covered payroll for the current and preceding two (2) years:

<u>June 30,</u>	<u>MIP</u> <u>Contributions</u>	<u>District</u> <u>Contributions</u>
2008	4.0 %	16.9 %
2007	4.0	17.5
2006	4.0	16.0

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

**NOTE H: RISK MANAGEMENT**

The District also participates in a pool, the MASB-SEG Property and Casualty Pool with other school districts for property, fleet, liability, in-land marine, crime, equipment breakdown, and employee dishonesty. The pool is organized under Public Act 138 of 1982, as amended as a governmental group property and casualty self insurance pool. In the event the pool's claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The District has not been informed of any special assessments being required.

The District also participates in a pool, the SEG Self-Insured Workers' Disability Compensation Fund, with other school districts for workers' compensation losses. The pool is organized under Public Act 317 of 1969, as amended. In the event the pool's claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The District has not been informed of any special assessments being required.

**NOTE I: SPECIAL EDUCATION UNDERFUNDING SETTLEMENT**

Prior to the current year the Durant vs. State of Michigan case was settled and the State was required to reimburse each plaintiff and nonplaintiff District an agreed upon amount for past under funding of special education. Pottersville Public Schools, a nonplaintiff District, was awarded \$111,968 in the settlement. The funds are being paid as follows:

- a. One-half is being paid over the next ten (10) years, which began November 15, 1998. The restrictions on use of these funds are detailed within State School Aid Act, Section 11F(6). These funds are recorded within the General Fund as categorical State Aid. At the end of the current year all these funds had been expended.
- b. One-half is being paid over the next fifteen (15) years, which began May 15, 1999. The District borrowed this portion of the settlement amount through the Michigan Municipal Bond Authority on November 15, 1998. These funds were recorded as bond proceeds in the Capital Projects Fund. The bond proceeds may be used for any purpose specified in Section 1351 (a) of the Revised School Code. The debt service payments for these bonds are to be made through an annual legislative appropriation. If the State of Michigan legislature fails to make the annual appropriation the District is under no obligation for the debt payments for that year. The District has pledged the annual State payments to the Michigan Municipal Bond Authority for payment of debt service.

**NOTE J: BONDED CONSTRUCTION FUNDS**

The Capital Project Funds of the District include amounts funded by local revenues from local millage for a bond sinking fund and other local revenue such as interest, general fund transfers, etc. For these projects recorded within the Capital Project Funds, the District has, based on our testing of a sample of transactions from the inception of these projects, complied with the applicable provisions of Sections 1351 (a) and 1212 of the Revised School Code, and the Michigan Department of Treasury Letter 01-95, in the current year and all applicable prior years.

Pottersville Public Schools

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

**NOTE J: BONDED CONSTRUCTION FUNDS - CONTINUED**

The Capital Projects Funds include capital project activities funded in part with the above-mentioned sinking fund amounts levied after May 1, 1994. The following is a summary of the revenue and expenditures in the Capital Projects Funds from the inception of the fund as it relates to sinking fund amounts through the current fiscal year. These amounts relate to cumulative project-to-date revenues/expenditures through the period ended June 30, 2008.

	General Projects (Sinking Fund)
Revenues	<u>\$ 1,551,777</u>
Expenditures	<u>\$ 1,221,319</u>

**NOTE K: SHORT-TERM NOTES**

On August 20, 2007, the District paid off the 2006 State Aid Note with a principal amount of \$785,000. On August 20, 2007, the District issued a short-term State School Aid Anticipation Note in the amount of \$785,000 for the purpose of funding operating expenditures until the fiscal year 2007 State Aid payments resumed. The outstanding balance was scheduled to be paid off on August 20, 2008.

**NOTE L: EXCESS OF EXPENDITURES OVER APPROPRIATIONS**

The approved budgets of the District have been adopted at the activity level for the General Fund and the total expenditure level for the Special Revenue Funds.

During the year ended June 30, 2008, the District incurred expenditures in the General Fund and Athletics Fund in excess of the amounts appropriated as follows:

	Amounts <u>Appropriated</u>	Amounts <u>Expended</u>	<u>Variance</u>
General Fund			
Instruction			
Basic programs			
Elementary	\$ 1,346,809	\$ 1,351,487	\$ 4,678
Middle school	1,121,159	1,126,644	5,485
High school	1,780,423	1,788,841	8,418
Supporting services			
Instructional staff			
Pupil support services	746	1,486	740
Other Supporting services			
Pupil accounting	-	1597	1597
General administration			
Executive administration	164,516	167,127	2,611
Community services			
Community daycare	194,794	201,520	6,726
Athletics Fund	244,590	237,377	7,213

Pottersville Public Schools  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2008

**NOTE M: SUBSEQUENT EVENTS**

After the year ended June 30, 2008, the following subsequent event occurred:

On August 20, 2008, the District issued a State School Aid Anticipation Note in the amount of \$1,100,000 for the purpose of funding operating expenditures until the fiscal year 2008 State Aid payments start October 2008. This short-term note will be paid off when the District accumulates sufficient State Aid revenues.

## **REQUIRED SUPPLEMENTARY INFORMATION**

Pottersville Public Schools

General Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2008

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
REVENUES				
Local sources	\$ 754,959	\$ 840,886	\$ 815,720	\$ (25,166)
State sources	6,168,274	6,475,747	6,463,045	(12,702)
Federal sources	533,378	587,139	506,196	(80,943)
<b>TOTAL REVENUES</b>	<b>7,456,611</b>	<b>7,903,772</b>	<b>7,784,961</b>	<b>(118,811)</b>
EXPENDITURES				
Current				
Instruction				
Basic programs				
Elementary	1,311,707	1,346,809	1,351,487	(4,678)
Middle school	1,121,505	1,121,159	1,126,644	(5,485)
High school	1,771,695	1,780,423	1,788,841	(8,418)
Summer school	7,422	6,922	6,922	-0-
<b>Total basic programs</b>	<b>4,212,329</b>	<b>4,255,313</b>	<b>4,273,894</b>	<b>(18,581)</b>
Added needs				
Special education	817,209	835,601	820,515	15,086
Compensatory education	64,607	75,521	54,533	20,988
<b>Total added needs</b>	<b>881,816</b>	<b>911,122</b>	<b>875,048</b>	<b>36,074</b>
Adult and continuing education	82,789	74,456	53,399	21,057
<b>Total instruction</b>	<b>5,176,934</b>	<b>5,240,891</b>	<b>5,202,341</b>	<b>38,550</b>
Supporting services				
Student services				
Guidance services	194,079	206,019	172,914	33,105
Speech therapist	38,452	54,182	37,240	16,942
Social work services	112,766	111,142	94,634	16,508
<b>Total student services</b>	<b>345,297</b>	<b>371,343</b>	<b>304,788</b>	<b>66,555</b>
Instructional staff				
Teacher consultant	141,535	142,791	131,667	11,124
Pupil support services	497	746	1,486	(740)
Improvement of instruction	26,620	56,207	45,064	11,143
Technology assisted instruction	-	22,520	15,355	7,165
Supervisor and director of instruction	198,119	183,271	163,384	19,887
Education media services	112,547	118,672	112,092	6,580
<b>Total instructional staff</b>	<b>479,318</b>	<b>524,207</b>	<b>469,048</b>	<b>55,159</b>

Pottersville Public Schools

General Fund

BUDGETARY COMPARISON SCHEDULE - CONTINUED

Year Ended June 30, 2008

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
EXPENDITURES - CONTINUED				
Current - continued				
Supporting services - continued				
General administration				
Board of education	\$ 46,019	\$ 42,252	\$ 37,024	\$ 5,228
Executive administration	146,389	164,516	167,127	(2,611)
Total general administration	192,408	206,768	204,151	2,617
School administration	599,195	616,856	605,086	11,770
Business				
Fiscal services	149,167	158,887	148,738	10,149
Other business services	29,254	68,082	60,707	7,375
Total business	178,421	226,969	209,445	17,524
Operations and maintenance	809,620	811,158	803,693	7,465
Transportation	391,513	511,209	437,509	73,700
Other supporting services				
Staff/personnel services	13,000	16,474	5,714	10,760
Support technology services	45,586	68,963	60,919	8,044
Pupil accounting	6,920	-	1,597	(1,597)
Total other supporting services	65,506	85,437	68,230	17,207
Total supporting services	3,061,278	3,353,947	3,101,950	251,997
Community services				
General community services	4,954	10,387	775	9,612
Community daycare	188,781	194,794	201,520	(6,726)
Other community services	262,753	259,617	220,536	39,081
Total community services	456,488	464,798	422,831	41,967
TOTAL EXPENDITURES	8,694,700	9,059,636	8,727,122	332,514
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(1,238,089)	(1,155,864)	(942,161)	213,703

Pottersville Public Schools

General Fund

BUDGETARY COMPARISON SCHEDULE - CONTINUED

Year Ended June 30, 2008

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
OTHER FINANCING (USES)				
Payments to other districts	\$ (15,000)	\$ -	\$ -	\$ -0-
Other transactions	992,262	1,045,130	1,027,325	(17,805)
Transfers to other funds	<u>(166,690)</u>	<u>(166,690)</u>	<u>(135,495)</u>	<u>31,195</u>
TOTAL OTHER FINANCING (USES)	<u>810,572</u>	<u>878,440</u>	<u>891,830</u>	<u>13,390</u>
NET CHANGE IN FUND BALANCE	(427,517)	(277,424)	(50,331)	227,093
Fund balance, beginning of year	<u>615,601</u>	<u>615,601</u>	<u>615,601</u>	<u>-0-</u>
Fund balance, end of year	<u>\$ 188,084</u>	<u>\$ 338,177</u>	<u>\$ 565,270</u>	<u>\$ 227,093</u>

## **OTHER SUPPLEMENTARY INFORMATION**

Potterville Public Schools  
Nonmajor Governmental Funds  
COMBINING BALANCE SHEET

June 30, 2008

	<u>Special Revenue Funds</u>		<u>Debt Service</u>
	<u>Food Service</u>	<u>Athletics</u>	<u>1999 Debt</u>
ASSETS			
Cash and cash equivalents	\$ 42,360	\$ 31,374	\$ 47,770
Taxes receivable	-	-	22,082
Due from other funds	628	-	12
Due from other governmental units	28,239	-	-
Inventory	4,123	-	-
	<u>4,123</u>	<u>-</u>	<u>-</u>
TOTAL ASSETS	<u>\$ 75,350</u>	<u>\$ 31,374</u>	<u>\$ 69,864</u>
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 3,488	\$ 3,574	\$ -
Due to other funds	23,391	27,800	-
	<u>23,391</u>	<u>27,800</u>	<u>-</u>
TOTAL LIABILITIES	26,879	31,374	-0-
FUND BALANCES			
Reserved for			
Inventory	4,123	-	-
Debt service	-	-	69,864
Unreserved			
Undesignated, reported in			
Special revenue funds	44,348	-	-
	<u>44,348</u>	<u>-</u>	<u>-</u>
TOTAL FUND BALANCES	<u>48,471</u>	<u>-0-</u>	<u>69,864</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 75,350</u>	<u>\$ 31,374</u>	<u>\$ 69,864</u>

Funds		
2001 Debt	Total	
\$ 44,629	\$ 166,133	
31,983	54,065	
88	728	
-	28,239	
-	4,123	
<u>\$ 76,700</u>	<u>\$ 253,288</u>	
\$ -	7,062	
-	51,191	
-0-	58,253	
-	4,123	
76,700	146,564	
-	44,348	
76,700	195,035	
<u>\$ 76,700</u>	<u>\$ 253,288</u>	

Pottersville Public Schools

Nonmajor Governmental Funds

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN  
FUND BALANCES

Year ended June 30, 2008

	<u>Special Revenue Funds</u>		<u>Debt Service</u>
	<u>Food Service</u>	<u>Athletics</u>	<u>1999 Debt</u>
REVENUES			
Local sources	\$ 139,675	\$ 85,438	\$ 368,564
State sources	10,814	-	-
Federal sources	127,213	-	-
	<u>277,702</u>	<u>85,438</u>	<u>368,564</u>
TOTAL REVENUES	277,702	85,438	368,564
EXPENDITURES			
Current			
Food service	277,122	-	-
Athletics	-	237,377	-
Debt service			
Principal retirement	-	-	310,000
Interest, fiscal and other charges	-	-	84,380
	<u>277,122</u>	<u>237,377</u>	<u>394,380</u>
TOTAL EXPENDITURES	277,122	237,377	394,380
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	580	(151,939)	(25,816)
OTHER FINANCING SOURCES			
Transfers from other funds	-	135,495	-
	<u>580</u>	<u>(16,444)</u>	<u>(25,816)</u>
NET CHANGE IN FUND BALANCES	580	(16,444)	(25,816)
Fund balances, beginning of year	47,891	16,444	95,680
Fund balances, end of year	<u>\$ 48,471</u>	<u>\$ -0-</u>	<u>\$ 69,864</u>

<u>Funds</u>	
<u>2001 Debt</u>	<u>Total</u>
\$ 525,181	\$ 1,118,858
-	10,814
-	127,213
525,181	1,256,885
-	277,122
-	237,377
40,000	350,000
471,687	556,067
511,687	1,420,566
13,494	(163,681)
-	135,495
13,494	(28,186)
63,206	223,221
\$ 76,700	\$ 195,035

**Potterville Public Schools**

**SUPPLEMENTARY INFORMATION  
TO FINANCIAL STATEMENTS  
(FEDERAL AWARDS)**

**June 30, 2008**

Pottersville Public Schools

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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE  
TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Board of Education  
of Potterville Public Schools  
Potterville, Michigan

Compliance

We have audited the compliance of Potterville Public Schools with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to its major Federal program for the year ended June 30, 2008. Potterville Public Schools' major Federal program is identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major Federal program is the responsibility of Potterville Public Schools' administration. Our responsibility is to express an opinion on Potterville Public Schools' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about Potterville Public Schools' compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Potterville Public Schools' compliance with those requirements.

In our opinion, Potterville Public Schools complied, in all material respects, with the requirements referred to above that are applicable to its major Federal program for the year ended June 30, 2008.

Internal Control Over Compliance

The administration of Potterville Public Schools is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to Federal programs. In planning and performing our audit, we considered Potterville Public Schools' internal control over compliance with the requirements that could have a direct and material effect on a major Federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Potterville Public Schools' internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a Federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a Federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a Federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

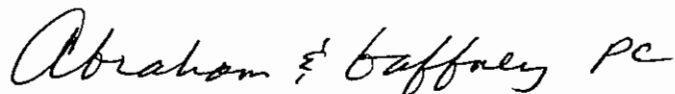
A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a Federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

#### Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Pottersville Public Schools as of and for the year ended June 30, 2008, and have issued our report thereon dated December 10, 2008. Our audit was performed for the purpose of forming our opinions on the financial statements that collectively comprise Pottersville Public Schools' basic financial statements. The accompanying schedule of expenditures of Federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Board of Education and administration of Pottersville Public Schools, others within the District, the pass-through grantors, and the Federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Abraham & Gaffney PC".

ABRAHAM & GAFFNEY, P.C.  
Certified Public Accountants

December 10, 2008

Pottersville Public Schools

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2008

Federal Grantor / Pass-Through Grantor Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Restated Program or Award Amount	(Memo Only) Prior Years' Expenditures	Balance July 1, 2007 Accrued or (Deferred) Revenue	Cash Receipts In-Kind Payments	Expenditures	Balance June 30, 2008 Accrued or (Deferred) Revenue
U.S. DEPARTMENT OF LABOR Passed through Michigan Department of Career Development and Capital Area Michigan Works WIA Youth Activities <sup>(e)</sup>	17.259							
2007-08		7235	\$ 169,800	\$ -	\$ -	\$ 153,394	\$ 165,167	\$ 11,773
2006-07		6235	176,205	173,698	22,012	22,012	-	-0-
			346,005	173,698	22,012	175,406	165,167	11,773
U.S. DEPARTMENT OF EDUCATION Passed Through State Department of Education ABE	84.002							
2006-07 Instruction		071130711047	32,997	32,997	8,085	8,085	-	-0-
2007-08 Instruction		081130811047	55,000	-	-	8,897	55,000	46,103
			87,997	32,997	8,085	16,982	55,000	46,103
E.S.E.A. Title I	84.010							
2007-08 Regular - Part A		0815300708	60,411	-	-	-	49,624	49,624
2006-07 Regular - Part A		0715300607	55,499	48,038	2,478	5,796	3,318	-0-
2005-06 Regular - Part A		0615300607	6,641	3,586	1,014	1,014	-	-0-
			122,551	51,624	3,492	6,810	52,942	49,624
Education for Homeless Children and Youths	84.196							
2006-07		0723200607	53,166	43,347	18,985	36,813	17,828	-0-
2007-08		0823200708	53,721	-	-	7,855	16,047	8,192
			106,887	43,347	18,985	44,668	33,875	8,192
Title V	84.298							
2007-08		0802500708	188	-	-	-	188	188
Technology Literacy Challenge Grants	84.318							
2007-08 Ed Tech - Formula Grant		0842900708	529	-	-	-	529	529
Improving Teacher Quality	84.367							
2007-08		0805200708	33,565	-	-	-	32,593	32,593
2006-07		0705200607	31,346	23,010	(2,167)	4,216	6,383	-0-
2005-06		0605200607	3,967	3,949	215	215	-	-0-
			68,878	26,959	(1,952)	4,431	38,976	32,593

Pottersville Public Schools

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED

Year Ended June 30, 2008

Federal Grantor / Pass-Through Grantor Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Restated Program or Award Amount	(Memo Only) Prior Years' Expenditures	Balance - July 1, 2007 Accrued or (Deferred) Revenue	Cash Receipts In-Kind Payments	Expenditures	Balance June 30, 2008 Accrued or (Deferred) Revenue
U.S. DEPARTMENT OF EDUCATION - CONTINUED								
Passed Through State Department of Education and Eaton Intermediate School District Special Education 94-142 Flow Through	84.027							
2007-08		805004500708	\$ 25,000	\$ -	\$ -	\$ -	\$ 25,000	\$ 25,000
2007-08		805004500708	4,025	-	-	-	4,025	4,025
			29,025	-0-	-0-	-0-	29,025	29,025
TOTAL U.S. DEPARTMENT OF EDUCATION			416,055	154,927	28,610	72,891	210,535	166,254
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES								
Passed Through State Department of Career Development and Capital Area Michigan Works! TANF Program	93.558							
2007-08 Learn-to-Earn		8236	100,000	-	-	56,899	85,462	28,563
2006-07 Learn-to-Earn		7236	100,000	72,146	8,589	27,661	19,072	-0-
			200,000	72,146	8,589	84,560	104,534	28,563
Passed Through State Department of Career Development and Capital Area Michigan Works! and Eaton Intermediate School District TANF Program								
2007-08 Learn-to-Earn	93.558	8237	25,000	-	-	14,640	19,355	4,715
2006-07 Learn-to-Earn		7237	25,000	18,395	3,561	10,166	6,605	-0-
			50,000	18,395	3,561	24,806	25,960	4,715
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			250,000	90,541	12,150	109,366	130,494	33,278

Pottersville Public Schools

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED

Year Ended June 30, 2008

Federal Grantor / Pass-Through Grantor Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Restated Program or Award Amount	(Memo Only) Prior Years' Expenditures	Balance July 1, 2007 Accrued or (Deferred) Revenue	Cash Receipts In-Kind Payments	Expenditures	Balance June 30, 2008 Accrued or (Deferred) Revenue
U.S. DEPARTMENT OF AGRICULTURE Passed Through State Department of Education								
School Breakfast Program	10.553 <sup>(f)</sup>							
2006-07		071970	\$ 17,159	\$ -	\$ 2,852	\$ 4,586	\$ 1,734	\$ -0-
2007-08		081970	10,849	-	-	10,849	15,624	4,775
			28,008	-0-	2,852	15,435	17,358	4,775
National School Lunch Program	10.555 <sup>(f)</sup>							
2006-07		071950, 071960	82,119	71,979	12,393	22,533	10,140	-0-
2007-08		081950, 081960	59,357	-	-	59,357	80,646	21,289
			141,476	71,979	12,393	81,890	90,786	21,289
Special Milk Program for Children	10.556 <sup>(f)</sup>							
2007-08		081940	218	-	-	218	398	180
Food Donation <sup>(c)</sup>	10.550							
Entitlement commodities		23090	17,280	-	-	17,280	17,280 <sup>(a)</sup>	-0-
Bonus commodities		23090	1,391	-	-	1,391	1,391 <sup>(a)</sup>	-0-
			18,671	-0-	-0-	18,671	18,671	-0-
TOTAL U.S. DEPARTMENT OF AGRICULTURE			188,373	71,979	15,245	116,214	127,213	26,244
TOTAL FEDERAL AWARDS			\$ 1,200,433	\$ 491,145	\$ 78,017	\$ 473,877 <sup>(d)</sup>	\$ 633,409 <sup>(g)</sup>	\$ 237,549 <sup>(b)</sup>

## NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

June 30, 2008

**NOTE A: BASIS OF PRESENTATION**

The accompanying Schedule of Expenditures of Federal Awards includes the Federal grant activity of June 30, 2008, Michigan and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*.

**NOTE B: SUMMARY OF SIGNIFICANT EXPLANATIONS OF SCHEDULE**

The following descriptions identified below as (a) through (g) represent explanations that cross reference to amounts on the Schedule of Expenditures of Federal Awards.

- (a) The current year expenditures for the Food Donation Program are determined based on the 2002/03 guidance provided in the Michigan Department of Education Administrative Policy Number 7. The amounts reported in this schedule as commodities received were taken from the Recipient Entitlement Balance Report which is in agreement in all material respects with the District's reported amounts.
- (b) The expenditures reported in this schedule are in agreement with the amounts reported in the financial statements and financial reports. The financial reports tested, including claims for advances and reimbursements, were materially correct, complete, accurate, and timely and contain information that is supported by the books and records from which the financial statements have been prepared.
- (c) The amount of out of conditioned commodities due to spoilage or shrinkage included in expenditures is immaterial to the Schedule of Expenditures of Federal Awards taken as a whole.
- (d) The amounts reported in this schedule as cash received are in agreement with the cumulative payment amounts in the Grants Section Auditors Report and the "paid during date range" amounts on the Grant Auditor Report combined, less the receipt adjustments for grants that overlapped from prior years as follows:

<u>Grant #</u>	<u>Payment Amounts Per Reports</u>	<u>Less: Prior Year Receipts</u>	<u>Cash Receipts Per Current SEFA</u>
071130711047	\$ 32,997	\$ 24,912	\$ 8,085
061130611046	35,846	35,846	-0-
0502500405	559	559	-0-
0542900405	1,808	1,808	-0-

- (e) Denotes program tested as "major program".
- (f) Denotes programs required to be clustered by the United States Department of Agriculture.
- (g) Agrees to total revenues from Federal sources per financial statements.

#### Principals

Dale J. Abraham, CPA  
Michael T. Gaffney, CPA  
Steven R. Kirinovic, CPA  
Aaron M. Stevens, CPA  
Eric J. Glashouwer, CPA  
Alan D. Panter, CPA



### **ABRAHAM & GAFFNEY, P.C.**

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#### **REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Education  
Pottersville Public Schools  
Pottersville, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Pottersville Public Schools as of and for the year ended June 30, 2008, and have issued our report thereon dated December 10, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

#### Internal Control Over Financial Reporting

In planning and performing our audit, we considered Pottersville Public School's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control over financial reporting.

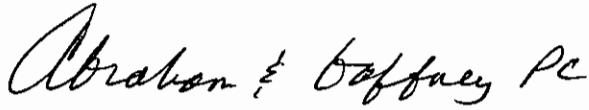
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings as Finding 2008-1.

The District's response to the finding identified in our audit is described in the Schedule of Findings. We did not audit the District's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the administration, the Board of Education of Pottersville Public Schools, others within the District, the pass-through entities, and Federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Abraham & Gaffney PC".

ABRAHAM & GAFFNEY, P.C.  
Certified Public Accountants

December 10, 2008

Pottersville Public Schools  
SCHEDULE OF FINDINGS  
Year Ended June 30, 2008

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**Section I - Summary of Auditor's Results**

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**Financial Statements**

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? \_\_\_\_\_ Yes   X   No

Significant deficiencies identified that are not considered to be material weakness(es)? \_\_\_\_\_ Yes   X   None reported

Noncompliance material to financial statements noted? \_\_\_\_\_ Yes   X   No

**Federal Awards**

Internal control over major programs:

Material weakness(es) identified? \_\_\_\_\_ Yes   X   No

Significant deficiencies identified that are not considered to be material weakness(es)? \_\_\_\_\_ Yes   X   None reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported by Section 510(a) of Circular A-133? \_\_\_\_\_ Yes   X   No

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
17.259	WIA Youth Activities

Dollar threshold used to distinguish between Type A and Type B programs: \$ 300,000

Auditee qualified as low-risk auditee?   X   Yes \_\_\_\_\_ No

---

**Section II - Financial Statement Findings**

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**2008-1 Unfavorable Budget Variances**

Condition: During our review of the District's compliance with the budgeting act, we noted that expenditures had exceeded the amounts appropriated for various activities in the General Fund and Athletics Fund. The District's budget was not amended in all necessary areas as it became apparent that expenditures would exceed the amounts appropriated for various activities of the General Fund and Athletics Fund.

Criteria: The Uniform Budgeting and Accounting Act (Public Act 621 of 1978, as amended) requires the District to amend the original adopted budget "as soon as it becomes apparent that a deviation from the original general appropriations act is necessary and the amount of the deviation can be determined". The Act also states that "an administrative officer of the local unit shall not incur expenditures against an appropriation account in excess of the amount appropriated by the legislative body".

Pottersville Public Schools  
SCHEDULE OF FINDINGS - CONTINUED  
Year Ended June 30, 2008

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**Section II - Financial Statement Findings - continued**

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**2008-1 Unfavorable Budget Variances - continued**

Effect: The District is not in compliance with the Uniform Budgeting and Accounting Act.

Recommendation: We recommend the District monitor expenditures against adopted budgets in all applicable funds and make appropriate budget amendments as needed.

Corrective Action Response: District will monitor budgetary progress more closely in the future.

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**Section III - Federal Award Findings**

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None

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Year Ended June 30, 2008

FINDINGS/NONCOMPLIANCE

Significant Deficiencies Related to Internal Controls Over Financial Statements.

**2007-1 Preparation of Financial Statements in Accordance with GAAP**

Condition: In 2007, we noted that the District did not have internal controls in place in order to prepare the annual financial statements and related notes in accordance with Generally Accepted Accounting Principles (GAAP).

Resolution: In 2008, the District entered into an agreement with Eaton Intermediate School District (the ISD) under which certain financial management services have been provided. Because of the involvement of the ISD, the internal control over financial reporting now includes controls over the preparation of annual financial statements and related notes in accordance with GAAP. We consider this finding to be resolved.

Findings Related to Compliance with Requirements Applicable to the Financial Statements.

**2007-2 Unfavorable Budget Variances**

Condition: During our review of the District's compliance with the budgeting act, we noted that expenditures had exceeded the amounts appropriated for various activities in the General Fund and Athletics Fund. The District's budget was not amended as it became apparent that expenditures would exceed the amounts appropriated for various activities of the General Fund and Athletics Fund.

Resolution: This issue is evaluated each year. We consider this issue resolved for the year ended June 30, 2007.

Findings Related to Compliance with Requirements Applicable to Federal Awards and Internal Control Over Compliance in Accordance with OMB Circular A-133.

There were no findings disclosed for the past two (2) years.